

VZCZCXRO8013  
RR RUEHRG  
DE RUEHBR #0329 0461221  
ZNR UUUUU ZZH  
R 151221Z FEB 06  
FM AMEMBASSY BRASILIA  
TO RUEHC/SECSTATE WASHDC 4537  
RUEATRS/DEPT OF TREASURY WASHINGTON DC  
INFO RUEHRG/AMCONSUL RECIFE 4334  
RUEHRI/AMCONSUL RIO DE JANEIRO 1539  
RUEHSO/AMCONSUL SAO PAULO 6374

UNCLAS BRASILIA 000329

SIPDIS

SENSITIVE  
SIPDIS

TREASURY FOR OASIA - K.BERG/F.PARODI/N.LEE  
USAID/W FOR LAC/SAM, LAC/RSD AND EGAT/ENR  
STATE FOR EB/IFD/OMA - K.MOSS  
STATE FOR OES/ETC - CASWELL AND MCALPINE

E.O. 12958: N/A

TAGS: [EFIN](#) [SENV](#) [EAID](#) [PREL](#) [BR](#)

SUBJECT: BRAZIL AND DEBT-FOR-NATURE ... TWO STEPS BACK

REF: A) 05 BRASILIA 1695      B) 05 BRASILIA 3346

11. (SBU) Summary and Action Request: Treasury Secretary Joaquim Levy told Econoff in a February 9 meeting he was surprised that the USG had begun formally to evaluate Brazil's eligibility to participate in debt reduction/swaps under the Tropical Forest Conservation Act (TFCA). Before entering into any formal process, he said, the GoB would like a signal from the policy-level in the USG on several GoB aspirations, key among them its desire for a large TFCA program (something approaching US\$100 million). The GoB also has a series of unresolved technical questions to discuss. Levy stated it was in both parties' best interest to have a better idea of what was feasible before entering into more formal negotiations. He suggested using a previously-planned February 21 visit to Washington to discuss these issues with the U.S. Treasury. Post recommends Treasury meet with Levy at an appropriately senior level to discuss the outstanding issues. End summary and action request.

12. (SBU) Levy expressed concern to Econoff in a February 9 meeting that the USG had begun formally to evaluate Brazil's eligibility for debt swaps or reduction operations under the TFCA. Levy, who was accompanied by Ministry of Environment Forestry Director Tasso Azevedo, stated that Minister Palocci's November 3, 2005 letter to Secretary Snow was intended merely as an introduction for Governor

SIPDIS

Jorge Viana of the Amazon basin state of Acre. (Note: Viana's enthusiasm for landing TFCA-supported projects for his state has pushed recent Brazilian consideration of this issue). Levy said that before entering into any formal process, the GoB needed assurances from the policy level in the USG that its aspirations with regard to a TFCA program were reasonable. There was no point in getting into a formal process, he argued, if GoB desires were not realistic.

13. (SBU) Key among these aspirations is a large program, on the order of US\$100 million. By the ministry's calculation, there was about \$90 million of eligible bilateral USAID debt, none of which had been rescheduled by the Paris Club (Note: By USAID's estimate there is US\$180.6 million). Levy clarified that Brazil's planned Paris Club (PC) debt pre-payment (ref B) applied only to rescheduled PC debt of US\$68 million, according to the ministry's estimate. Levy stated that, if it were necessary and if allowable under PC rules, Brazil could withhold from the prepayment Brazil's rescheduled PC debt to the USG in order to "top up" the size of a TFCA operation. Levy said that while there had been discussion at the technical level both of the budgetary obstacles to a large program and potential work-arounds, he had not received a clear signal at the policy-level on how far the USG was prepared to go. Forestry Director Azevedo elaborated on the GoB concerns in a side

conversation with Econoff, noting that the "high transaction costs" of participating in a TFCA debt reduction or swap operation were not really worthwhile to the GoB unless the program were a large one.

¶4. (SBU) Levy enumerated four other key issues for GoB involvement in TFCA. The first, in addition to the size of the program, was whether the USG could undertake a multi-year commitment under TFCA. The next two, geographic coverage and whether TFCA can finance reforestation projects, are interlocking. Levy explained that, Governor Viana aside, the GoB would like to do more to preserve what remains of the Mata Atlantica (Atlantic Forest). Because over 90% of the Mata Atlantica is gone, however, the GoB believes reforestation efforts to be an important part of this effort. But the language of the TFCA addresses preservation, Levy affirmed, not restoration or reforestation. (Note: Levy did not state in this meeting that the GoB sought to limit the program only to the Mata Atlantica.) Lastly, the GoB would like to use the proceeds of the TFCA debt operation to create an endowment, as opposed to spending down the funds quickly. Levy stated he would like to be able to use a planned February 21 trip to Washington to meet at the policy level in Treasury to discuss TFCA.

¶5. (SBU) Comment: Levy's trip will be a useful opportunity to make sure we are all on the same TFCA page. Post recommends Treasury meet with Levy at an appropriate level to discuss these GoB aspirations.

CHICOLA